18 CORPORATE RESTRUCTURING

1. The first step in evaluation of an announced corporate transaction is:
   (A) the gathering of data.
   (B) initial evaluation.
   (C) preliminary valuation.

2. Which of the following is least likely an advantage of comparable company analysis?
   (A) The approach does not assume that the market's valuation of the comparable companies is fair.
   (B) Estimates of value are derived directly from the market rather than assumptions and estimates about the future.
   (C) Data for comparable companies is easy to access.

3. Which of the following is least likely a disadvantage of comparable transaction analysis (CTA)?
   (A) Historical transactions may have occurred under different conditions.
   (B) The CTA approach implicitly assumes that the M&A market valued past transactions appropriately.
   (C) Estimates of value are derived directly from recent prices for actual deals completed in the marketplace.

4. Which corporate transaction is most likely in response to compliance with regulatory requirements?
   (A) Divestment.
   (B) Restructuring.
   (C) Investment

5. Using data in **Financial Statements (€ thousands) for the Year Ended December 31, 20X2,** Company P's consolidated-debt-to-EBITDA ratio after acquisition will most likely:
   (A) increase.
   (B) remain the same.
   (C) decrease.

6. Which of the following statements about Company P's WACC is most accurate?
   (A) Weights of debt and equity are calculated using most recent book values, and include any financing raised or additional equity issued.
   (B) The cost of debt will depend on the historical cost of debt of Company P only.
   (C) Several factors influence the cost of debt: profitability, volatility of EBITDA, leverage, collateral, and so on.

7. Which of the following is the best estimate of the value of equity of Company S, using the comparable company analysis?
   (A) €160,415,000.
   (B) €151,153,000.
   (C) €171,876,000.

8. Assuming that Company P and Company S instead agree to enter into a joint venture, which of the following statements is most accurate?
   (A) Company P and Company S would cease to exist, and a new company would instead be formed.
   (B) Both companies would report the investment using the equity method.
   (C) Company P would report the investment using the acquisition method, while Company S would report under the equity method.

9. An analyst is writing a report on the impact of an announced divestment by Ziglair, Inc. The transaction calls for sale of Ziglair's foreign subsidiary. She makes the following two statements in the report:

   Statement 1: One approach is to use a multiple such as EV-to-EBITDA ratio or EV-to-sales ratio to value the various segments of a business and then compare the sum of the values to the conglomerate EV to determine the reasonableness of the transaction.

   Statement 2: Unlike sales, spinoffs do not generate sale proceeds; hence, they are easier to model.

   Which statement is correct?
   (A) Both statements are correct.
   (B) Statement 2 only.
   (C) Statement 1 only.

10. Peter Small, CFA, makes the following statements:

   Statement 1: In an opportunistic restructuring, a business changes its balance sheet composition, cuts costs, or alters its business model to improve the return on capital.

Statement 2: Moderate-to large-sized business units sought by several potential acquirers might be expected to be spun off as opposed to sold.

Which statement is correct?

(A) Statement 2 only.

(B) Statement 1 only.

(C) Neither statement is correct.

11. Which of the following statements about materiality is least accurate?

(A) Materiality is evaluated based on transaction size and fit.

(B) Cost restructuring may be evaluated as estimated savings as a percentage of sales.

(C) The divestment of an unrelated business for a company that had previously been diversifying into such businesses is immaterial.

12. Petra Zimuth, CFA, is analyzing an announced acquisition. Under the terms, Apollo, Inc., is to be taken over by Bastille, Inc., at a price of $65 per share. Last week, Apollo stock was trading at a price of $48 and increased to $55 in anticipation of the announcement. The offer premium is closest to:

(A) 18%.

(B) 35%.

(C) 44%.

13. Kavi Biswas, CFA, makes the following statements:

Statement 1: Empirical studies suggest that corporate transactions taken during stronger economic times tend to create more value.

Statement 2: Corporate transactions tend to be cyclical, increasing in prevalence during economic expansions and decreasing during contractions.

Which statement is correct?

(A) Statement 2 only.

(B) Statement 1 only.

(C) Neither statement is correct.